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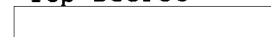
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## PORTUGAL: New Government Proposed

*Chances are slightly better than even that President Eanes will accept the proposal by the ruling Democratic Alliance coalition to form a government led by Social Democrat Vitor Crespo, but recent infighting within and between Alliance parties will limit it at best to a caretaker administration.*

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Neither the top leaders of Crespo's dominant Social Democratic Party nor those of the rightwing Center Democrats--the Alliance's junior partner--have agreed to serve in the new government. Crespo is a compromise candidate who was endorsed by his party only after more prestigious Social Democrats refused to serve.

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The Center Democrats are even less enthusiastic about Crespo and agreed to go along only after the Social Democrats threatened to end the Alliance. President Eanes has 10 days either to accept the Crespo government or to dissolve parliament and call early elections.

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Comment: Some of the President's advisers argue that Portugal cannot afford the weak leadership that a Crespo regime would introduce. They also point out that early elections probably would bring Mario Soares's Socialist Party to power and force it to deal with the balance-of-payments crisis, thus discrediting Soares--an old enemy of Eanes--through association with unpopular austerity measures.

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Other advisers, however, believe that Portugal's financial problems must be addressed now, if only by an interim government. They advocate giving Crespo a few months to pass a budget and begin loan negotiations with the IMF. This also would enable Eanes to contest elections later in the year as the head of a "Presidential" party, an option he is considering.

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CHINA - HONG KONG: Proposed Nuclear Plant

*The State Council has approved importing China's first major nuclear power facility, but formidable obstacles at home and abroad put its construction in doubt.* [REDACTED]

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The chairman of the Hong Kong - based China Light and Power Corporation--a joint participant in the project with Guangdong Province--says his company has not decided whether to proceed. China has not resolved major differences with the power company over management of the plant and the cost to be borne by each side. The company can profit only if it makes substantial sales of power to Hong Kong after 1990. [REDACTED]

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Comment: There has been no official word on how the project will be financed. [REDACTED]

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[REDACTED] Prospective sellers of a nuclear plant presumably are cautious about any costly project not backed by the Bank of China. [REDACTED]

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## ETHIOPIA: Plans To Form a Communist Party

*A recent announcement that the government will form a Communist party in the near future and Chairman Mengistu's calls for increased rural collectivization and firmer ties with the USSR demonstrate a continued commitment to radical domestic and foreign policies.* [redacted]

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The party is expected to be established next year, when the regime marks its 10th anniversary. Mengistu noted that the new party will work for the establishment of a "People's Democratic Republic of Ethiopia" and will be closely tied to the Soviet Communist Party. [redacted]

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Mengistu acknowledged Ethiopia's poor agricultural productivity, but he claimed that more rapid collectivization of farms and modern technology would solve the problem. He accused the US of conspiring to destroy Ethiopia's "progressive" regime and called for closer relations with the USSR and Eastern Europe. [redacted]

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Comment: Mengistu had been resisting Soviet pressure to form the party soon because he has not wanted to create an independent source of leaders who could challenge his rule. The announcement suggests that he now feels secure enough to make the move. Mengistu and his supporters will dominate the party, as they now control the commission organizing it. [redacted]

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The Ethiopian leader probably believes that the inauguration of the party will please Moscow at a time when payments of over \$200 million per year begin to come due on Ethiopia's \$2 billion military assistance debt. He may use the move to argue for the rescheduling of the payments. [redacted]

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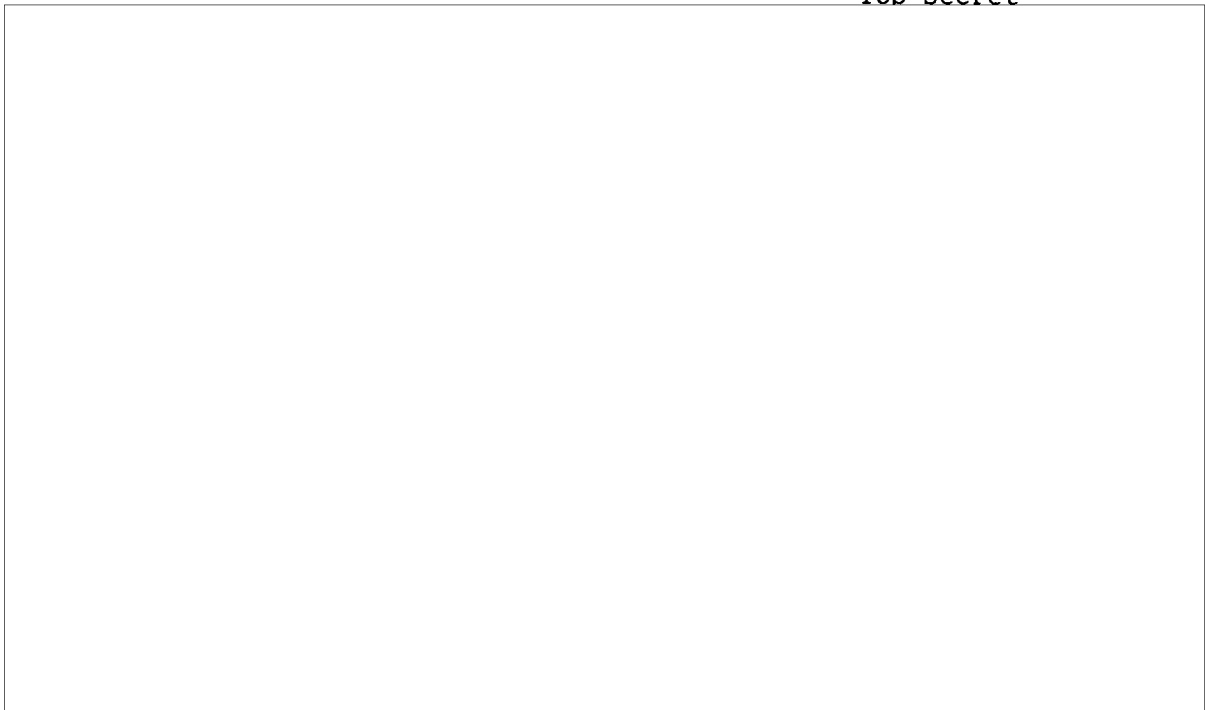
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## POLAND: Price Increases



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[redacted] The regime officially has announced, however, that retail prices will increase only 15 percent in 1983, with price hikes scheduled thus far on public transportation, postal services, private vehicles, and apartment rents. Many workers are concerned about rumors of price increases that would not be covered by wage increases. According to a survey by the regime, about 30 percent of Polish families cannot afford to buy their meat or flour ration because of the 350-percent increase in food prices last year. [redacted]

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Comment: Significant price increases could generate more resistance this year than last year. With martial law suspended, Polish workers may be more willing to show their anger and frustration at the regime's austerity policies. Such outbursts, however, would be localized and controllable by the authorities. [redacted]

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## EC: Resolution on Security Issues

The European Parliament on Thursday passed a resolution urging EC governments to increase coordination on political and economic aspects of European security at meetings of NATO's North Atlantic Council. The move stems from a parliamentary committee report concluding that transatlantic trade differences--specifically the recent disputes over EC steel exports and US sanctions on the Siberian gas pipeline--could threaten the cohesion of the Alliance. [redacted]

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Comment: The resolution is not binding on the members, and the EC has no specific authority to address security-related issues. Discussion of such topics already takes place informally among EC foreign ministers, however, and the Community has formed expert-level working groups that regularly discuss policies on CSCE, disarmament, and nonproliferation. Formal consideration of Alliance-related matters in the EC probably will be blocked in the immediate future by Ireland--the only non-NATO member of the Community--but the other nine governments may increase informal discussions at NATO meetings. [redacted]

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## BOLIVIA: Lack of Action on Narcotics Control

Interior Minister Roncal, who is being publicly criticized for his inaction on the narcotics problem, has announced a plan to fight drug trafficking in the Chapare region of central Bolivia. The plan emphasizes social and economic development rather than enforcement and eradication. The US Embassy reports that drug trafficking in the region is worse now than when President Meza was in office. [redacted]

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Comment: The government under President Siles has failed to take any effective antinarcotics action since he took office last October. Siles is preoccupied with the economic situation and with protecting his coalition, and he is reluctant to challenge the powerful narcotics industry. If the new campaign comes to pass, it will be extremely limited in scope and aimed at placating US demands for action. [redacted]

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## Special Analysis

### NATO: Reassessing the Zero Option

*Several Allies are urging Washington to modify its zero option negotiating position at Geneva, which calls for the elimination of all US and Soviet INF missiles from Europe. Italian disarmament expert Taliani last week told US officials in Rome that his government believes the time has come to drop the zero option. West German, British, and French officials have already suggested that the US should demonstrate flexibility to help win public support for eventual deployments. Allied pressure on the US to show more negotiating flexibility will increase over the next few weeks.*

[redacted]

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The suggestions follow a recent Soviet propaganda campaign that has captured public attention in Western Europe and has led to more insistent demands by opposition figures in Allied countries that the US change its INF policies. General Secretary Andropov launched the new campaign on 21 December by proposing a ceiling for missiles in Europe equivalent to the number of British and French intermediate-range missiles.

[redacted]

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The UK and France joined the US in rejecting the offer because they oppose including their strategic nuclear systems in US-Soviet talks. Although the other Allies also termed Andropov's plan unacceptable, all indicated that it is a step in the right direction and deserving of study.

[redacted]

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### West German Responses

Andropov's proposal is aimed primarily at the election in West Germany, and it is having the greatest effect there. Opposition leaders, while not embracing the offer of the ceiling, publicly stress what they view as the positive aspects of the plan.

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The Soviet leader's tacit acknowledgment of a missile imbalance in Europe, his willingness to reduce Soviet

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INF systems, and his proposal for new verification procedures have been greeted as Soviet concessions. West German Social Democratic disarmament expert Egon Bahr believes that French and British nuclear systems have to be taken into account in calculations of the overall strategic balance. [redacted]

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Social Democratic leader Vogel said after his visits to Washington and Moscow that he expects the US to drop the zero option to reach agreement at Geneva. Social Democratic pressure on the government of Chancellor Kohl to modify its support for the zero option is likely to increase, especially following Moscow's apparent offer to dismantle some SS-20s. [redacted]

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The growing tide of anti-INF sentiment and the positive Social Democratic reaction to parts of Andropov's plan have led to rumors of dissension in the West German coalition. Foreign Minister Genscher, for example, said publicly that some unspecified intermediate arrangements might be achieved as a step toward the zero option, and then he evidently backed away from the suggestion. [redacted]

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West German officials privately have urged the US to develop an alternative position. Pressure on the US almost certainly will grow as the election on 6 March approaches, especially if the Soviets continue to detail Andropov's proposals in a way that appeals to the Social Democrats or if Foreign Minister Gromyko proposes a delay in deployments while negotiations continue. [redacted]

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The leadership in Bonn believes that the zero option is not realistic, and it will expect the US to consider other outcomes for presentation at Geneva this spring. Nevertheless, the current government probably will maintain its public support for the zero option at least until after the election. Last week it reaffirmed this commitment and criticized the Social Democrats for not supporting established NATO policies. [redacted]

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An aide to Chancellor Kohl recently said that a diversion from the zero option now would undermine any hope of a breakthrough at Geneva by relinquishing the tool that brought about the recent shifts in the Soviet

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position. Government officials also want to avoid public disclosure of a new negotiating strategy because they fear that the Social Democrats would claim credit for forcing the change by the US. [redacted]

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Other Allies

Italian Christian Democratic Party Secretary De Mita says that Italy is prepared to deploy INF missiles even if West Germany does not. The government, however, fears that rigid adherence to the zero option will undercut the prospects for NATO deployments in both West Germany and Italy. [redacted]

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Taliani spelled out his government's recent suggestions for an interim agreement by proposing keeping the zero option as a long-term goal but pressing first for Soviet reductions and US INF deployments at reduced levels. [redacted]

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The US Embassy in London reports that the British public believes the zero option is unattainable and will not continue supporting a policy that would sacrifice the chance for substantial INF reductions. The government of Prime Minister Thatcher may face elections later this year and probably will argue for negotiating flexibility--possibly including movement from the zero option--to make INF deployments more palatable to the public. The government also apparently believes that joint US-British launching controls on INF missiles in the UK would improve basing prospects. [redacted]

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French officials privately criticize the zero option, probably because it has focused attention on the role of their strategic systems. They know their own missiles cannot serve as a nuclear guarantee for Western Europe, and they believe some INF deployments are essential to maintain the US nuclear commitment to Western Europe's defense. [redacted]

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The French also worry about the impact of the INF debate on NATO unity. They probably would welcome some demonstration of US flexibility at Geneva to put the USSR on the defensive. [redacted]

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Outlook

The British and West German Governments almost certainly share the Italian view that an interim agreement allowing partial INF deployment could help defuse the growing antinuclear sentiment. They probably do not think that immediate change is possible but want the US to develop a new negotiating position quickly to facilitate a coordinated Alliance presentation that can preserve NATO unity. [redacted]

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